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Fisher, Henry

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# BANK AUDITS:

THE  
PRACTICABILITY OF A THOROUGH INDEPENDENT  
SYSTEM CONSIDERED.

BY  
HENRY FISHER,  
MANAGER OF THE MIDLAND BANK, LIMITED, WOLVERHAMPTON AND LATE OF THE  
YORK CITY AND COUNTY BANKING COMPANY.

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TO  
EDWARD BAINES, ESQ., M.P.

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## BANK AUDITS:

THE PRACTICABILITY OF A THOROUGH INDEPENDENT  
SYSTEM CONSIDERED.

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To EDWARD BAINES, Esq., M.P.

SIR,—In approaching so important a subject as the consideration of this question involves, I would acknowledge that I do so with diffidence, knowing it to be *beset* with difficulties.

It is, however, a matter of the gravest importance that the audit of our Joint Stock Banks and Financial Associations of every class should be at all times, and in every case, what it professes to be—but what it is *not* at all times—a certificate of the true position of a company at the time of audit, and such, speaking broadly, as would be the result were any company so audited at that moment to wind up its affairs. I venture to submit, therefore, that the sooner the subject is discussed the better it may be for the

proprietary, for the depositors, and for the country generally. And I am of opinion that public intelligence is of late so much advanced on these matters, and so greatly inclined to publicity of accounts, that any endeavour to obtain generally, what we will call a thorough audit of our Joint Stock Banks, would be hailed with the greatest satisfaction. In these days too, of Banks and Financial Associations, we may say *ad libitum*, a supervision of the almost absolute powers of directors is imperatively called for. *Theoretically* directors are but the delegates of their constituency, but *practically* they are without control, so far as *proprietary* power is ordinarily exercised. The law enacts that Joint Stock Banks shall be conducted only under such and such conditions, and notwithstanding that we may be said to have Free Trade in banking under "the Companies' Act, 1862," yet that very Act stipulates for certain conditions under their limited liability license, beyond those required of the old Banks, obliging many particulars to be made public which have not hitherto been required of Joint Stock Banks; so that although very far from doing all that could possibly have been effected, there is yet little doubt that the "Companies' Act, 1862," will prove a step in the direction of a *sound system* of Joint Stock Banking. I cannot, therefore, but think that its provisions might have extended a little further, and have devised a *thorough* power of audit that should have established its solidity, and have afforded a great *national* safeguard.

So much does the welfare of any community depend upon its national credit, and so vastly do our now numerous Joint Stock Banks and other Financial Associations affect the state of our credit, that it may be laid down as reasonable that a Government which concerns itself so closely with the purity of coinage and the convertibility of the National Note, might fairly extend its interference to a compulsory investigation being made of such institutions by publicly authorised auditors or inspectors, to be assisted by other local and practical commercial knowledge. At present we may have reports where securities utterly valueless are returned as undoubted assets, or others where the prices are much exaggerated to the ruin of investors, and all this without any effective check, when even the unaided inspection of almost any independent person could not fail to detect the viciousness of many such reports: *but so long as a Bank declares good dividends the great majority of shareholders take them without any inquiry.*

A moment's reflection on the mode in which Bank Audits are made will show the system to be mere outward ceremony, having no practical value to the shareholders or to the nation. I hold that the operations of our Joint Stock Banks, and similar associations, are now so powerful that their aggregate report is not *less* due to the nation than each individual one is to its proprietary.

Be it understood then, that, as a rule, a balance

sheet is prepared by the executive and submitted to the directors for their approval, after which it is laid before the auditor, who then examines it with the aid of such vouchers as he can procure, together with certain generalized statements submitted to him, and from these the several entries are checked off. The totals being found to agree, the work is done, and the report declared to be correct. Correct probably it is in most cases so far as it goes, but it is one thing to find a *statement* arithmetically correct and another to investigate the *securities* on which that statement is founded; and it is submitted that when the executive find it convenient to *conceal* the actual position of a concern, the auditor, practically, is powerless to *expose* it. Nay, so altogether is the present system of audit a mere sham, that it is even probable some day or other we shall be aroused to a keener sense of its insufficiency by some gigantic fraud committed even in the very face of this merely arithmetical investigation. Witness the Redpath frauds on the Great Northern Railway, in 1856, when, by the prefixing of the figure "1," he converted £500 into £1,500, continuing the game unchecked to the tune of £150,000. Whilst then insisting mainly on a system of audit competent to deal with a Bank's *securities*, it is not to be forgotten that there equally may exist a necessity for a searching audit as to mere arithmetical correctness. The Railway Company had their auditors, and Redpath, knowing the part they did not investigate, chose to deal therein. This consisted in a non-

comparison of the "Transfers" with the "Register" book. If, as the auditors *alleged*, the checking off of these matters was no part of their duty, then the blame is the directors'. Be it whose it might, it teaches forcibly the necessity for internal vigilance and constant, thorough supervision of clerks. Nor need I call to your memory where, in the absence of efficient checks, Bank clerks have practised similar frauds to large amounts.

As evidence, generally, how much auditors' or directors' statements may possibly prove to be worth, I may refer you to the later ones of such failed Banks as "The Western Bank of Scotland," "The Liverpool Borough Bank," "The Northumberland and Durham District Bank,"—all of which had been shown to be in a most prosperous condition up to the moment of failure, at which time the liabilities of these three Banks alone amounted to over £14,000,000. How many sad tales this involves I may not now dwell on.

Reverting for a moment to the Borough Bank of Liverpool, it is to be observed that, at the date of its winding up, the whole of the capital, close upon £1,000,000, was found to have been lost, whereas the statement or report in July preceding was such that not only was no such loss apparent, but that had an auditor been called in, *acting under the usual power vested in such person*, he would, from the arrangement of the accounts, have given his certificate of the correctness of that report. For it is to be borne in

mind that his function extended *only* to the examination of the *accounts*, and not in any degree to the valuation of *securities*. Thus we have a statement showing under "*Assets*" "*Bills discounted for Customers*," "*Due from Customers*," &c., a sum of £940,000, every penny of which at that time was sunk and utterly lost. The statement, although not verified by an *audit*, had yet the authority of the Board. But it was elicited in the examination before the Parliamentary Committee of Mr. J. Dixon, a managing director of said Bank, that the system of management as he found it on his connection with the Bank, *only about two months previously*, was that the shareholders trusted the directors—(shareholders always do so long as good dividends are paid)—but that the *general* body of directors knew nothing whatever of *individual* transactions; that this general body of (nine) directors trusted the three managing directors, and the three managing directors trusted the *manager*. Mr. Dixon shows that at the time of the Bank's stoppage it had nearly £1,000,000 in bills in London under discount, which could not have been negotiated except for the Bank's endorsement stamp;—mainly bills which the Bank should not have dealt with at all, and on which *his knowledge of the parties, brought about by his own mercantile experience in Liverpool*, warranted him at once in pronouncing the most unfavourable opinion;—bills bearing the appearance of good trade bills, but yet representing transactions and amounts quite beyond

the position and business of such parties. His further investigations showing a system of "*Renewals*" utterly at variance with good Banking. It is deeply to be regretted that a gentleman possessing the keen perceptive powers and integrity of Mr. Dixon should not have combined therewith fortitude to have thrown expediency to the winds, and have resisted being a party to a report so entirely at variance with facts. In the failure of the Leeds Banking Company we have in many respects almost parallel circumstances. But, whilst the *manager* of the Liverpool Bank had a fortune swept away as a proprietor of his Bank, it is to be observed that the late *manager* of the Leeds Banking Company was *not* in any degree so committed.

I need not go into any particulars of the dreadful misfortune befallen so many of your esteemed and honoured townsmen as well as others; all the sad trials thereby caused are, I am sure, too vividly before you.

I believe I am correct in stating that the Leeds Banking Company, like the Borough Bank of Liverpool, had not any provision in its Deed of Settlement for an audit of its accounts; but, from the remarks already made on the nature of Bank audits, especially so long as the Bank showed earnings equal to 40 per cent., it is not to be supposed that, had such provision existed, there would have been any exercise of it.

Here permit me to refer briefly to the Royal British

Bank, whose proceedings and finale are, no doubt, fresh in your memory. And, in addressing you on this subject, I deem it not inappropriate to reproduce to you one or two features in the history of that villainous scheme in support of the necessity that exists for more effectual measures in protection of Joint Stock Bank proprietors. I would observe, then, that the directors, managers, solicitors, and others favourably initiated were, at the time of the Bank's stoppage, under advances to the amount of probably £100,000, which, together with an advance of over £100,000 in some Welsh mines, were returned in their last reports as good *assets*; the latter realising some £6,000, the former, I may venture to say, almost nothing. Yet, here again it is probable that had an auditor gone through the accounts, *acting under the power usually vested in such auditor*, as before remarked, he would have given his certificate of their correctness.

I would also speak briefly of the late Unity Bank—perhaps I shall most effectively do this by quoting from the public examination of the manager and secretary before the Lord Mayor, at the Mansion House, as detailed in the newspapers of 5th November instant. Mr. Lewis, in stating the case for the prosecution, said:—

“The next and the gravest item, and to which he begged the most serious attention while he explained it, was the item entered under the heading of “Bills discounted, loans to customers, &c.,” £207,668 14s. 10d. He would here state that he would prove most clearly, under the handwriting of both of the

prisoners in books kept by them for the Bank, that this item was mostly a gross fabrication, and was concocted jointly by them in a manner well worthy of being thoroughly exposed. The effect of that item on the balance sheet was to lead the shareholders and the world to believe that the Bank had good assets in the shape of bills then under discount, and not due, and loans to customers which had not arrived at maturity. But what could his lordship think of the conduct of these defendants when he was informed that that item on being analysed consisted of debts due from customers of the Bank upon their dishonoured bills? From 1859 to 1860 bills amounting to £10,769 18s. 6d., which had been dishonoured during that time, and bills of a similar character dishonoured during 1861, and amounting to £12,552 18s. 6d., formed part of this large item of £207,668. Again, there was included in this item bills of an old and desperate discounter lying unpaid at the west branch amounting to £7,990 13s. 2d., some of which had been over-due since 1857. There was also a cheque paid in error, and a remittance which was lost in April, 1861, together with three notes-of-hand of £1,000 each, dishonoured in 1857, renewed but again dishonoured in 1858, and upon which a final dividend of 5½d. in the pound had been long since received by the Bank. Most of the parties to these bills had become bankrupt, and the debts were considered irrecoverable. In the present days of Joint Stock Banking, which had almost superseded private Banking, and to which institutions the public were largely invited to subscribe, if such irregular items could be concealed under the terms “bills discounted, loans, &c.,” it was a mockery to issue periodical balance sheets, which, instead of showing the actual financial position of the Bank, assisted to conceal it.”

Leaving these powerful arguments, we may go back to the investigations by the Secret Committee on Joint Stock Banks, in 1837, and review the disclosures of the “Agricultural and Commercial Bank” (of Ireland), and the “Northern and Central Bank” (of England), and we there find a state of things that, one thinks, would at least have resolved Parliament to attempt some preventative measure, by compulsory audit and inspection, against the recurrence of such criminality and consequent ruin. Indeed, it seems scarcely



credible that the Legislature should have suffered the mischief caused by Joint Stock Bank failures to have continued from time to time so long without decided efforts to check it, for amongst the witnesses in the above investigations we have the evidence of the late Mr. Gilbert, favouring the idea of a more frequent publication of accounts, and a much more detailed form of statement, verified by some independent audit. We have, again, under the examination of the Select Committee on the Bank Acts, in 1857-8, the evidence of K. D. Hodgson, Esq., M.P., the present Governor of the Bank of England, in the same direction. Further, on careful reflection it will be seen that the evidence of nearly all the witnesses examined on this point under Parliamentary Committees, on the working, &c., of Joint Stock Banks favours, to a considerable degree, an opinion as to the possibility of a system of *independent* audit; whilst full *publicity of accounts* was strongly dwelt on, even so far back as 1832, in evidence on the Bank Charter. But with one and all, the insuperable difficulty seems to lie in a belief of the impracticability of combining in an audit that indispensable local, mercantile knowledge capable of dealing with *securities*, and at the same time *banking* experience capable of a thorough inspection of a Bank's operations. As to the first requisite named, I venture to say that there are amongst the proprietors of every Joint Stock Bank men whose practical, local, and commercial knowledge is equal to that of the direction. That, at the

time of the failure of the Leeds Banking Company in particular, there were many of its shareholders who were able to value nearly the whole of the West Riding paper afloat, and who, had they been called in even twelve months ago, would have saved effectually the Leeds Banking Company from the ruin which has befallen it.

The tenor of Mr. Hodgson's examination, above referred to, strengthens materially the opinion held as to the practicability of an independent audit. On the application of the Northumberland and Durham District Bank to the Bank of England for assistance, in 1857, Mr. Hodgson was deputed to go to Newcastle along with Mr. Newman, a partner of Messrs. Freshfield, for the purpose of ascertaining whether their position was such as to justify the Bank of England in giving the assistance sought, and, in answer to a question by Sir James Graham (Q. 3,538), he declares that in two hours he discovered the exact state of the Bank, and that, although he had the aid of the parties seeking assistance in his endeavours to ascertain their position, yet, if otherwise, he believed that it would have been quickly arrived at, his attention being at once directed to the *securities*. Mr. Hodgson at this period was the London correspondent and agent of Beaumont's Lead Works, in the neighbourhood of Newcastle, and was acquainted with that district, and thus his local mercantile knowledge,

coupled with his experience in banking,\* at once designated his fitness for the duties assigned him.

In the person, then, of Mr. Hodgson we have all the elements for a perfect audit. In a considerable degree we had the same elements present in Mr. Dixon, of the Liverpool Borough Bank; and, although it may not be practicable to obtain a *class* of men as public auditors and inspectors of Banks equally fitted, yet the *combination* of these necessary elements is held to be practicable.

In the course of his examination Mr. Hodgson further allows that an independent auditor appointed by some authority would be a great check upon a falsified Bank report, if a man of good judgment; but he observes, "In auditing a Bank, and taking an account of the assets of a Bank, every thing depends upon the correct judgment of the person examining the assets. An asset is either good or bad. A bill of exchange, for instance, is either the very best asset or the very worst, and it depends upon the judgment of the person examining the assets whether he counts it as a good or as a bad asset." Of course, this observation will be seen to apply equally to loans to customers and all overdrawn accounts without security. It is to be observed that "bills discounted," "loans," "due by customers," &c., is the great feature under "*assets*;" but supposing for a moment an auditor to have disposed of these, there are other points re-

\* Mr. Hodgson was at the same period a director of the Bank of England.

quiring the exercise of discretion based on experienced banking and general knowledge—local and mercantile. For instance, there may be securities which, in the strict sense, are not *banking* securities and on which, in the case of a wealthy Bank, advances may be even safe and prudent, but it rests on the judgment of an auditor where the limit of such advances is to be.

In supposing an auditor to have disposed of "bills discounted, &c.," as before noticed, we must, however, look at some very considerable difficulties in his way, and—First, as to *overdue bills*, on which the best local knowledge might be at fault as to the margin of loss to write off from time to time. There would also, perhaps, be no part of the function sought to be assigned to the audit where greater discrimination, greater judgment, or where a more intimate acquaintance with the details of the business was required than in the matter of "bills renewed." It appears, however, to be very possible to discern between what may be a legitimate exercise of this power and any system of renewed bills carried on for supporting hollow business, or in perpetuating as long as possible advances originally made on *accommodation* paper. It will be remembered that Mr. Dixon was able to discover that such practices had existed in the management of the Liverpool Borough Bank to a considerable extent.

Again, a large and influential Bank may have a considerable amount of bills in circulation, either

under re-discount or in the hands of its customers, bearing the Bank's endorsement; and herein lies one of the greatest difficulties the audit would have to encounter. Not seeing the bills, but only a list with drawers' and acceptors' names, without *endorsers'* signatures, they could not, with such data, pass anything like a certain judgment thereon. Nor is it easy to see how to overcome this difficulty, unless it can be accomplished in degree by making the bills received book a detailed register of every endorsement each bill bears, requiring also classified statements of amount of bills on which each such endorser is liable to the Bank. I do not state it on authority, but I believe the Bank of England, amongst its other perfections in accounts and book-keeping, has a system by which, in what is called the "Upon" ledger, the amount under every endorser's name is ascertained at a glance. I am also aware that a system aiming at these results is carefully practised by some managers in the provinces; and it is within the scope of my experience and acquaintance to say with great benefit to their Banks severally.

Mr. J. E. Coleman, whose experience as an eminent London accountant extended over the commercial panics of 1847 and 1857, in his examination before the Select Committee on the Bank Acts, in 1858, amongst other matters recommended that Banks should have a specific form for rendering their half-yearly accounts, to be signed by at least a *committee* of the directors themselves. There is, of course, some

value in this suggestion, as appearing to oblige directors to have a better knowledge of the Bank's affairs than is, perhaps, the case where the whole thing is entrusted to a managing director and the manager. But it does not seem to have occurred to Mr. Coleman that at best this is but the supervisor supervising himself. I refer to this more particularly as introducing a further recommendation of his on a matter of great importance, and on which he speaks very strongly, viz., that such accounts should particularize "bills renewed" and "over-due bills"—insisting on the latter as an item on which serious mischief had arisen. "Assuming for the moment," Mr. Coleman observes, "that a Joint Stock Bank may have £200,000 of over-due bills, or £300,000 as their usual sum, but that at some half-year the amount is £500,000, that very fact would lead to enquiries being made to know how it was, and the proprietors would then get information which they ought to have." Adopting this suggestion of Mr. Coleman, let us suppose Joint Stock Banks obliged to render the following particulars, viz.:—

"Bills Discounted"—less "Rediscounted."—Bills renewed and Bills over due being each specifically stated.

"Overdrawn Accounts."—With security—securities defined and particularized.

"Overdrawn Accounts."—Without security.

"Loans."

But these, be it remembered, are usually stated in the gross without any particularization, and represent the *major* part of a Bank's assets.

In reference to overdrawn accounts "without security," I would just remark, that banks in certain districts are in the habit of allowing substantial customers to overdraw considerably for short periods—as on the purchase of raw material, wool, flax, &c. But this is understood in such districts, and the publication thereof would not, therefore, be viewed as extraordinary.

Again, be it observed that on the other side of the balance sheet, under *liabilities*, we have not unfrequently "Amount due by the Bank for Customers' balances, deposits, acceptances, letters of credit, circular notes, &c," all included in one sum: a form of rendering accounts that may cover anything, and is scarcely less unsatisfactory than the points previously referred to. This matter has, however, been so ably insisted on in the pages of the *Economist*, that I shall not further dwell on it, save only to say that I believe the London and County, the Consolidated Bank, Limited, and the Midland Bank, Limited, may be taken as exceptions; but they are, I believe, the only home Banks whose reports, previous to my writing, have particularized their liability on acceptances.

Now, these analyses of a Bank's accounts, made at frequent intervals,—let us premise MONTHLY,\*—would unquestionably show the progressive working of such Bank, and would lead, almost certainly, to the detec-

\* Vide 7 and 8 *Victoriæ*, cap. 113, s. iv.

tion of any considerable amount of unsafe business having been done, equally would it exhibit any declension in deposits, &c.; and at the same time such form of account would greatly facilitate the work of inspection and audit. But, *unauthenticated*, neither this nor any form of account that could be devised would be of constant reliable value. This may be safely asserted as the opinion of many eminent banking authorities.

Whilst *supposing*, then, the practicability and consequent authenticity thereof, I also see in such accounts a valuable index, not only as to the credit and progress of any individual bank, but also of the soundness of trade in general. And again, I insist that so vast is the importance of this question, that these particulars in aggregate are not less due to the nation than the accounts of any individual Bank are to its proprietors.

From what has been already advanced, it will be seen that unless an audit is able to follow pretty closely almost every transaction of a bank, particularly with reference to Bills of Exchange in circulation and under re-discount, such audit would be imperfect. It might declare the balance of accounts right according to the ledger—as is the case now in Banks where provision for *audit* is made,—but without it possessed information far superior to what is expected, or, indeed, required of an auditor at present, unless the *audit* was almost equal in knowledge to the *direction*, it could not be what it is

desirable an audit should be, but which, nevertheless, it may closely approximate to.

Having already quoted several flagrant cases of Bank failures, I do not seek, by repeated instances, further to impress on you the necessity for better legislation on this question; indeed, I am assured your information on these matters is only exceeded by the sympathy you have with the sufferers thereunder. I, therefore, simply lay the following list of failed banks before you for your reflection, assured that if silently, they will powerfully enforce the consideration of this grave and important subject:—

EXTRACT FROM THE *TIMES'* MONEY ARTICLE,  
3RD MARCH, 1863.

"Sir,—In 1858 an interesting paper was published by Messrs. Waterlow and Sons, under the ominous title of *British Losses by Bank Failures*, and extending from 1820 to 1857.

"At the present time, when there is so great a mania for the establishment of new Banks, it may not be out of place to call attention to the general facts proved in this document.

"Omitting, then, the years previous to 1846, which may perhaps be considered to be out of date, and taking the twelve Years from 1846 to 1857 inclusive, it appears that the liabilities of the private Banks which suspended payment, amounted to £6,700,000, and those of the Joint-Stock Banks to £40,800,000, making a grand total of £47,500,000.

"To this, moreover, must be added another £1,500,000 for some Banks the liabilities of which are not mentioned.

"I am, Sir, your obedient Servant,  
"G."

	Private Banks.	Joint Stock Banks.
	£	£
1846.—Newcastle Joint-Stock Bank, Newcastle-on-		
Tyne ... ..	—	400,000
Leeds and West Riding Banking Company,		
Leeds and Bradford... ..	—	See below

	Sheffield and Retford Bank, Sheffield and Retford ... ..	—	350,000
	Latham and Co., Dover ... ..	90,000	—
	Leeds Commercial Banking Company, Leeds ... ..	—	251,500
1847.—	Leeds and West Riding Company, Leeds and Bradford ... ..	—	—
	North of England Joint-Stock Bank, Newcastle-on-Tyne, and 10 branches ... ..	—	2,205,811
	Clayton and Co., Preston ... ..	120,000	—
	Henry Knapp, Abington and Wantage ... ..	145,000	—
	Royal Bank of Liverpool, Liverpool... ..	—	1,790,000
	Liverpool Banking Company, Liverpool ... ..	—	546,000
	Scholes and Co., Manchester ... ..	91,273	—
	Union Banking Company, Newcastle-on-Tyne, and 9 branches ... ..	—	1,800,000
	North and South Wales Bank, Liverpool, and 20 branches ... ..	—	610,000
	Oldham Banking Company, Oldham ... ..	—	120,000
	Brodie and Co., Salisbury, &c. ... ..	133,511	—
	Cockburn and Co., London ... ..	—	—
	Sir F. C. Knowles, Bart., London ... ..	—	—
	Brodie and King, Shaftesbury ... ..	2,155,490	—
	George G. Holland, Sheffield ... ..	—	—
	T. Foster, Harthurn, &c. ... ..	—	—
	Stockton and Durham Joint-Stock Bank, Stockton, &c. ... ..	—	(?)
	Adams and Warren, Shrewsbury ... ..	34,500	—
	Flood and Lot, Horiton ... ..	91,000	—
	Gundry and Co., Bridport ... ..	120,000	—
	Gibson and Sturt, St. Alban's ... ..	13,673	—
1848.—	J. S. Story, St. Alban's... ..	10,000	—
	Union Bank, Calcutta... ..	—	1,250,000
	Bank of the West Indies, Barbadoes ... ..	—	1,100,000
	R. Porritt, Huddersfield (see below) ... ..	—	—
	London and Dublin Joint-Stock Bank, London and Dublin ... ..	—	(?)
	Commercial Banking Company, Isle of Man		
	Matthews and Co., Chipping Norton		
	Tod and Hill, Edinburgh ... ..	(?)	—
	R. Porritt, Huddersfield... ..	—	—
1849.—	Samuel Kenrick, Wrexham ... ..	23,000	—
	Royal Bank of Australia, London ... ..	—	450,000
	R. M. Lloyd, Wrexham ... ..	48,000	—
	Tice and Welch, Christchurch ... ..	25,000	—
	Banking Company of Aberdeen, Aberdeen, and 14 branches ... ..	—	620,000
	Benares Bank, Benares ... ..	—	230,000
	Butterfield and Co., Petersfield ... ..	(?)	—
	Southern Bank of Scotland, Edinburgh ... ..	—	(?)
1850.—	Nash and Neale, Reigate, and 2 branches ... ..	56,917	—
	Commercial Exchange Company, Glasgow... ..	—	921,858
	North British Bank, Glasgow ... ..	—	1,500,000
	Union Exchange Company, Glasgow ... ..	—	750,000
	West of Scotland Investment Company, Glasgow ... ..	—	350,000
	Glasgow Exchange Company, Glasgow ... ..	—	(?)
	National Exchange Company, Glasgow ... ..	—	210,780

	Exchange Bank of Scotland, Edinburgh ...	—	750,000
	Banking Company of Aberdeen, Aberdeen ...	—	900,000
1851.	Rufford, Biggs and Rufford, Bromsgrove ...	95,605	—
	Rufford and Wragge, Stourbridge ...	334,508	—
	Monmouth and Glamorganshire Banking Company, Newport, &c. ...	—	814,000
	Sunderland Bank, Sunderland ...	—	132,000
	Williams, Williams, and Son, Newport, Monmouth ...	88,000	—
	Trapp, Halfhead, and Co., Redford ...	370,369	—
	Simpson and Co., Peterborough ...	—	30,000
1852.	The Berks Union Bank, Reading ...	—	300,000
	Mauritius Bank, Mauritius ...	—	—
1853.	Holmes and Co., Douglas, Isle of Man ...	190,000	—
	Tanner and Co., Marlborough ...	60,000	—
1854.	Lemon and Co., Brompton ...	(?)	—
	British Colonial Bank and Loan Company, London ...	—	(?)
1855.	Shropshire Banking Company, Shifnal, and 3 branches ...	—	160,000
	De Lisle, Janvyn, and De Lisle ...	100,000	—
	Strahan, Paul, and Bates, London ...	802,678	—
	Palmer and Green, Lichfield ...	188,189	—
1856.	Cheltenham and Gloucester Joint Stock Bank, Cheltenham ...	—	120,000
	Tipperary Joint Stock Bank, Clonmel, and 8 branches ...	—	550,000
	Adams and Co., Hertford, &c. ...	103,000	—
	Smith and Whittingstall, Hemel Hempstead ...	65,178	—
	Newcastle Commercial Bank, Newcastle ...	—	89,850
	Royal British Bank, London ...	—	687,640
	Farley, Turner, and Co., Kidderminster ...	45,000	—
	Jones and Co., Crickhowell ...	(?)	—
1857.	London and Eastern Banking Company, London ...	—	590,240
	Dumbell, Son, and Howard, Isle of Man ...	50,000	—
	Smith, Hilder, and Co., Hastings, &c. ...	150,000	—
	Goth and Sons, Kettering ...	132,026	—
	Harrison, Watson, and Co., Hull ...	560,000	—
	Lowe and Co., Preston ...	113,549	—
	Liverpool Borough Bank, Liverpool ...	—	2,402,275
	Western Bank of Scotland, Glasgow, and 76 branches ...	—	9,171,641
	City of Glasgow Bank, Glasgow ...	—	4,897,339
	Northumberland and Durham District Banking Company, Newcastle, and 8 branches ...	—	2,809,233
	Wolverhampton and Staffordshire Banking Company, Wolverhampton ...	—	860,000
	G. T. Ward, Smithfield ...	20,000	—
	Hille and Sons, Dartford, &c. ...	60,000	—
	Owen and Gutch, Worcester ...	89,451	—

Private Banks, £8,773,914

Joint Stock Banks, £40,819,003

This might be supplemented by many failures since 1857.

I have now to refer you to the *provision* which certain failed Banks have had in their "Deeds of Settlement" for audit and authentication of their accounts.

On the same point I may also refer to Banks at present in existence;—observing that I quote from returns required to be made by Joint Stock Banks to the Secret Committee on Joint Stock Banks, in 1837.

#### YORKSHIRE DISTRICT BANK.

(Failed.)

Auditors are appointed in the terms of the 71st clause of the Deed of Settlement, which is as follows:—"That at every general meeting of the proprietors of the said Bank, to be held on the first Friday of February in each year, they shall appoint three of the proprietors (none of them being a general or local director of the said Bank, and each of them being a proprietor of 50 shares therein at the fewest) as auditors, to examine the accounts of the general board of directors of the said co-partnership, to be produced to the general meetings of the proprietors, directed to be held on every first Friday in August, and to sign such accounts, if found correct, and not to report thereon to the general meetings unless the accounts be found incorrect; which auditors are hereby empowered to require the production of all books, vouchers, writings, and documents concerning the same accounts, and to call in the aid of the general and other managers, accountants, clerks, and officers of the said co-partnership; and every of such auditors shall, previous to entering upon the investigation of the matters committed to their care, subscribe a declaration engaging to observe secrecy in respect to the state of the accounts of individuals with the Bank."

#### MONMOUTHSHIRE AND GLAMORGANSHIRE BANKING COMPANY.

(Failed.)

Report, February, 1837, prepared and sanctioned by directors, was read to the proprietors, and a clause of the deed was read authorising the appointment of auditors to examine the accounts, but the proprietors present declined to appoint any such auditors

or to investigate the accounts, being quite satisfied with the statement made to them.

#### EAST OF ENGLAND BANK.

(Failed.)

Reports and accounts are to be prepared under the responsibility of the general board of directors and submitted annually to general meetings of proprietors, to be held in Norwich on the first Wednesday in June, and which meetings are empowered to appoint auditors.

#### LEEDS BANKING COMPANY.

(Failed.)

*No provision for Audit.*

Report prepared by the manager and submitted to the examination of the directors.

It is to be presumed that the foregoing provisions for audit were *not* exercised.

I now quote two or three Banks at present in operation.

#### DUDLEY AND WEST BROMWICH BANK.

Summary of accounts is made up on the responsibility of the manager and cashier, and submitted to and audited by the directors at a special meeting. Proprietors at a general meeting are fully empowered, by clause 31 in Deed of Settlement, to appoint two shareholders to examine the accounts, and to direct the production to such auditors of all books, writings, and documents necessary for such investigation of the accounts, and of the affairs of the company.

#### DEVON AND CORNWALL BANKING COMPANY.

The audit and examination of the accounts is entrusted to two directors, and the reports are prepared under the responsibility of the whole board. The Deed of Settlement, sec. 31, page 24, provided that in case of dissatisfaction with the statement of the affairs of the company, every annual meeting may appoint two shareholders, qualified as directors and auditors to examine and report on the state of the accounts and affairs of the company; but this right has not been exercised, the proprietors having passed a unanimous resolution expressive of their entire satisfaction and confidence in the management of the Bank.

#### WEST RIDING UNION BANKING COMPANY.

The accounts are drawn out by the clerks, under the superintendence of the manager, and submitted to and examined by the board of directors previous to the annual meeting, and their report is founded thereupon. By article 49, the annual meeting has the power of appointing auditors to examine and report on the state of the affairs, but which right, circumstances, as yet, have not required the proprietors to assert.

#### HALIFAX JOINT STOCK BANKING COMPANY.

Accounts are made up under the superintendence and direction of the manager and cashier, and examined and audited by a committee of shareholders chosen for the purpose.

Besides these, there are many Banks, making returns at the above date, which show a provision for audit, which if faithfully exercised, would be of great value. There are many which also show the report to be prepared by the manager or directors, and issued on their authority alone, and amongst these are many highly influential and flourishing companies at present in existence.

I have dwelt hitherto on the past as the ground for insisting on the necessities of the question under consideration; I would yet observe that the recent mania for Joint Stock Banks seems to invest the future with much more than ordinary interest. Commencing with 1862 there have been established more than thirty new banking companies, home and foreign, which are at present in operation, and trading with *paid up capital* to the extent of probably not less than £10,000,000,\* and dealing with *deposits* to a very

\* This may be taken as approximately correct, and perhaps within the mark. Until the next report of these Banks is published it is difficult to quote the exact figures.

large amount. In this respect the Limited Banks, as a rule, have been much more successful than was anticipated by their opponents.

Whether Limited Liability shall prove a means of checking the career of any improvident Bank, before it shall have arrived at such an extreme point of ruin as the Leeds Banking Company did, equally with other cases of old Banks already cited, is not perhaps absolutely to the question; this, however, may be asserted that so long as we continue without some system and means for a thorough reliable audit, we remain *fearfully* liable to a repetition of calamities brought about by bad banking and falsified reports.

In considering, then, the practicability of an efficient system of audit, it is submitted that the difficulties of a purely *Governmental* audit are very great, nay perhaps insuperable. From the nature of the duties involved in an efficient audit, in order that it may be *really* thorough and exhaustive, it will be seen that we must combine with local mercantile knowledge competent to deal with a Bank's securities, *Banking* skill and experience of the highest class. Now, Government could appoint an officer having these latter qualifications, but beyond this, practically, it could do no more, and, as further *practicable* only from amongst the *shareholders* of any given Bank, can you secure the former essentials. I *repeat*, as further practicable and *DESIRABLE* only from amongst the *shareholders* of any given Bank can you secure the *former* qualifications.

But it is not to be supposed that Government would charge itself with so responsible a duty as the audit of our Joint Stock Banks. Were such the case—Government electing the auditor—it must of course take the responsibilities of any exercise of mis-judgment on his part. This involves considerations which seem to strike at once at the root of the supposition, and virtually to negative the possibility of it; and, I believe, that equal with the impracticability of a purely *Governmental audit*, is the impossibility of Government devising any form for rendering Bank *accounts* that shall not prove delusive and injurious rather than otherwise, if *unauthenticated* by an *efficient, independent* audit.

If, however, any system of sound audit be possible, now is a favourable moment for discussing it. We have just gone through a state of semi-panic; reports have prevailed, and have been verified to a considerable extent, as to the quality of a great amount of commercial paper afloat,\* and our Finance Companies, and some of our new Banks, have been very strongly reflected on in connection therewith; and had these reports taken deeper root, many of our soundest institutions must have greatly suffered. When all goes well, confidence is blind; when panic is rife, institutions must be sound indeed that do not suffer. I feel assured, however, that were our leading Joint

\* In the course of October last thirty-four firms suspended, with liabilities computed at £9,262,000.



Stock Banks under that efficient audit to be desired, such is their foundation, that public confidence in them would be increased. Not only would the confidence of existing proprietors be increased, but the connection of other influential, wealthy men would be secured;—men whose wisdom and sagacity teach them that the return to be obtained from Bank investments with *unlimited* liability attached (at present, say 5 to 6 per cent., speaking generally), is not worth the “*risk*.” Taken from this point of view alone, it seems manifestly to the interests of the old Banks to forward and support any well-considered scheme for a thorough audit of their affairs,—such as would remove beyond all doubt that feeling of distrust which is daily growing on the monied classes against proprietorship in such companies. For it can be demonstrated that the number of shareholders in a majority of the old Banks has declined of late years considerably, and that in the face of very great profits. To inquire whether this numerical declension embraces many of the more substantial proprietors, would be to descend to particular cases, which would be invidious.

Every solid institution would unquestionably be the better for such an audit; and it is believed that the leading Banks (old and new), London and Provincial, *would* heartily co-operate in establishing any well-devised measure which Parliament may have brought before it.

Having regard, then, to the *provision* which many *failed* Banks have had in their Deed of Settlement, for

means and power of audit, and seeing from time to time the unreliableness of Bank reports, either as under audit certificate or on the authority of directors and managers, I come to the conclusion that our only safety rests in an audit which shall be at once, OBLIGATORY, INDEPENDENT, PRACTICAL, and EXHAUSTIVE.

As I have referred to the immense increase in Joint Stock Banks under limited liability, allow me to direct your attention to the provisions which the “Companies’ Act, 1862,” makes for the audit of these Companies. I quote sections under “Audit,” 83, 84, 86, 87, 91, 92, 93, and 94, as follow :—

83.—“Once at the least in every year the accounts of the Company shall be examined, and the correctness of the balance sheet ascertained by one or more auditor or auditors.”

84.—“The first auditors shall be appointed by the Directors: subsequent auditors shall be appointed by the Company in general meeting.”

86.—“The auditors may be members of the Company; but no person is eligible as an auditor who is interested otherwise than as a member in any transaction of the Company; and no director, or other officer of the Company, is eligible during his continuance in office.”

87.—“The election of auditors shall be made by the Company, at their ordinary meeting in each year.”

91.—“If no election of auditors is made in manner aforesaid, the Board of Trade may, on the application of not less than five members of the Company, appoint an auditor for the current year, and fix the remuneration to be paid to him by the Company for his services.”

92.—“Every auditor shall be supplied with a copy of the balance sheet, and it shall be his duty to examine the same, with the accounts and vouchers relating thereto.”

93.—“Every auditor shall have a list delivered to him of all books kept by the Company, and shall at all reasonable times have access to the books and accounts of the Company: he may, at the expense of the Company, employ accountants or other

persons to assist him in investigating such accounts; and he may, in relation to such accounts, examine the directors or any other officer of the Company."

94.—"The auditors shall make a report to the members upon the balance sheet and accounts, and in every such report they shall state whether, in their opinion, the balance sheet is a full and fair balance sheet, containing the particulars required by these regulations, and properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs; and in case they have called for explanation or information from the directors whether such explanations or information have been given by the directors, and whether they have been satisfactory; and such reports shall be read together with the report of the directors at the ordinary meeting."

In these are embraced all the leading features in the audit, empowered and provided for under that act, and on the ground of arguments and considerations already gone into, it is submitted that these powers and provisions will be found inadequate to protect the proprietary in such Banks from the misdoings of directors and managers.\*

For experience has proved from time to time in the case of failed Banks, that the policy of managers and directors is to keep up their *dividends* to the latest moment: and *experience further proves*, that so long as good dividends continue to be paid, shareholders will not care to insist on any audit at all.

\* Since writing the above, the following painful exposure corroborates too strongly the view I have here laid down.

*Manchester Examiner and Times, Nov. inst.*  
THE LONDON AND COLONIAL BANK.  
SINGULAR DISCLOSURES.

At a meeting of the International Bank on Wednesday, a statement was submitted respecting the losses which the London and Colonial Bank had sustained before its amalgamation with the British and American Exchange Bank, and of the extent to which losses are recovered.

The Chairman, Mr. John Pattison, said, speaking of the above Company:—The assets in London consisted chiefly of the dishonoured acceptances of

Further, it is submitted that "the Auditor" contemplated by this Act would not, for reasons already shown, be competent to give a certificate, which should be reliable and undoubted, as setting forth a full and fair balance sheet, exhibiting a true and correct view of the state of the Company's affairs, where the direction and management designed to *conceal* their true position.

A reflection on the difficulties shown to surround the subject under consideration, and, in practice, these difficulties might even be found to be greater, together with the magnitude of the work, must lead to the conviction, as advanced in the opening of my letter, that the subject is *beset* with difficulties. But are they insuperable? Can it be held that any authorised reliable investigation of a Bank's affairs, from time to time, would be so prejudicial to existing interests, or are *existing interests* so great that in leaving the matter as it stands we are but allowing the lesser evil? I say "No."

Joint Stock Banks are now so eminently an *institution* of this country, that the perfection of the

Gladstone and Company, and indeed he might say solely of those dishonoured acceptances. Those dishonoured acceptances amounted to £40,670, and there had been besides £800 abstracted from the bank; and there were also current acceptances which it was perfectly well known would not be met by Gladstone to the amount of £59,462—(great sensation); so that in point of fact there were acceptances to the amount of over £100,000 perfectly worthless, which formed part of the assets of the London and Colonial Bank. But this was not the worst, for there was also to the debit of Thomas Gladstone cash advances to the extent of £23,000 odd. A few days before the amalgamation of the two institutions, it fell to his lot to look through the assets of the bank. He then found that a large portion of those assets consisted of Mr. Gladstone's acceptances, which were uncovered by anything.

system is what we must constantly approximate to. And when prudence, honour, and integrity are at its helm, such are the merits of *Joint Stock* enterprise that we need nothing more. But *failing* these, the law does not afford a sufficient safe-guard for the interests of the proprietors, nor for the community at large.

But the opposition with which any Parliamentary measure on this subject would probably be met is not to be overlooked.

I have referred to the *Financial Associations*, as well as to the Joint Stock Banks, but it shall be supposed that the proposed audit is to apply only to Banks, and it shall apply equally to the old and *new* Banks. Now, there are, perhaps, some of the *former* to whom such a searching examination would be very inconvenient, while a large number of them could afford to adopt such without risk of falling in public estimation. The weak Companies would allege that this compulsory investigation of their affairs, brought suddenly upon them, would further weaken them, consequent on the withdrawal of confidence, incident on a true statement of their condition.

They would, doubtless, seize every pretext possible for opposing generally any measure of this nature. Nor can it be doubted that a bank really unsound being thus called on to show its weakness, would suffer. But it would suffer *deservedly*, inasmuch as its present apparent prosperity is founded on false representations. It can be no valid reason generally

for perpetuating such a condition of things, to allege that the *exposure* of an unsound institution would be its *ruin*. Better stop at once than go on indefinitely catching at chances to retrieve itself until the inevitable crash can be no longer delayed, and the *maximum* amount of ruin and loss has been attained. Had your Leeds Banking Company been so exposed even twelve months ago, happy had it been for its deluded shareholders. *Shareholders*, even, may shrink from these investigations, and see in them the depreciation of their stock, &c., but they are not wise men who will persist in going on when once a doubt can be entertained that their affairs are not sound.

Again, the weaker *new* Banks, would not be slow in joining any opposition to such measure, and would probably contend that the effect of such law would be most prejudicial to them in the early days of their establishment; that it would enforce an invidious comparison of such companies, with old established institutions, and thus while directly prejudicing the former, would enrich the latter and render yet more difficult legitimate competition. But I believe the inherent and intrinsic merits of LIMITED LIABILITY in its application to Joint Stock Banking to be such, that the well-planted new Banks will *continue rapidly to make way* in public estimation.

Nor would opposition stop here. The weaker Financial Associations, dreading the thin edge of the wedge, would see the probability of the measure

soon being applied to them, as a class, equally with the Banks, and most likely the Trading and Commercial Companies would re-echo the injustice of such investigations. But in these several associations, as well as the Banks, who might oppose the introduction of such a scheme, who really would be the parties so averse to investigations of this nature? Would it be the great body of the proprietary themselves, or "The Board?" I fear it would be the latter, dreading in many cases the exposure of their misdoings, now conveniently and effectually covered from the shareholders.

Viewing this question as from that broad basis on which it should rest, regarding it as of national and individual importance, I do say that a necessity, an absolute necessity, demands the interference of the legislature.

Let, then, the legislature exercise its wisdom in devising means *adequate* to protect the vast interests involved in the question on which I have now the honour to address you.

Based mainly on the *foregoing* arguments I beg now to submit to you the following propositions:—

1. That there are 110 Joint Stock Banks\* in England and Wales, exclusive of Foreign and British Colonial Banks with offices in London, having a *subscribed* capital of £70,000,000, and a *paid up* capital of £19,000,000,† and dealing with *Deposits* to an

\* Bankers' Magazine, 1864.

† It is difficult to state precisely, but these figures may be taken as approximately correct and within the mark.

enormous amount. From the absence of precise figures it seems best not to approximate in this matter.

2. That the system of Joint Stock Banking is now thoroughly established as an *institution* of the country, productive of great national and individual prosperity and wealth.

3. That it has, nevertheless, been productive of incalculable mischief, national and individual.

4. That, consequent on the immense increase of trade, import and export, the magnitude of operations, the centralization of money in London, and the speculative spirit of the age, fostered and encouraged by over competition for business by our Banks generally, we must look forward to a *repetition* of such misfortunes, possibly exceeding the past in magnitude and extent.

5. That our national and individual welfare being so deeply involved in the operations of Joint Stock Banking, and such being the imperfection of existing laws thereto referring, Parliament should make it its business to consider the possibility of establishing more effective legislation on the matter than is at present in operation.

6. That in the event of legislation hereon, the publication of *monthly accounts*\* of individual Banks, in the local papers, should be compulsory.

\* It is to be observed that the Bank of England publishes a *weekly* statement of its affairs.

7. That a copy of each such statement should be forwarded monthly to the Board of Trade, who shall register the same for public reference and convenience, and shall therefrom publish a generalized report of all Joint Stock Banks, *quarterly*, in the *London Gazette*, similar to the publication of note circulation.

8. That a better *form* for rendering such accounts is essential, inasmuch as the present form effectually conceals all that is most desirable to be known equally under "*Assets*" and "*Liabilities*."\*

9. That a report, detailed and particularised in some such manner as the following, would carry on its face considerable means for estimating the true position of any given Bank. (In giving these as the *principal* features in a Bank report it is not necessary to indicate *all* the minutiae of a balance sheet.)

Cr.		Dr.	
Cash in hand and at call .....	£ " "	Capital subscribed, £ " "	
Bills discounted .....	£ " "	Capital paid up .....	£ " "
Less rediscounted .....	£ " "	Due on deposit receipts .....	£ " "
	£ " "	Due on customers' balances ..	£ " "
Bills Renewed and		Liabilities on acceptances	
Bills Overdue, included		and endorsements by the	
in the above,		Bank .....	£ " "
being each specifically stated.		Circular notes and letters of	
Overdrawn Accounts — with		credit .....	£ " "
security .....	£ " "		
(Securities defined and			
particularised.)			
Overdrawn Accounts — without			
security .....	£ " "		
Loans .....	£ " "		

\* This is intended to apply to the new as well as to the old Banks. It is to be understood that the Balance Sheet of Profit and Loss is given half-yearly. And in this matter, too, there is room for further detail of particulars.

10. That the *monthly* publication of such a statement would tend to check any considerable amount of bad business being done—a material safe-guard to individual proprietors; whilst the *quarterly* publication of these statements by the Board of Trade under a generalized form would afford to the nation statistics of a very valuable nature.

11. That, in support of these particularizations being published, Sheffield Neave, Esq., in his examination before the Select Committee on the Bank Acts, in 1858,\* admitted that, if it were required of Banks generally, he thought there could be no objection on the part of the Bank of England to particularize "other securities."

12. That, nevertheless, no form of statements of accounts, no matter what its detail, nor the frequency of its publication, would be of any material value if not *authenticated* by a *competent, independent* audit.

13. That the tenor of the evidence of nearly all the witnesses examined on this subject, under Parliamentary Committees on Joint Stock Banks, points to the possibility of establishing an independent reliable means of audit.

14. That having a due regard to the difficulties of the question, such audit could be effected by—

1st. Appointing a class of audit inspectors, gentle-

\* Mr. Sheffield Neave was at this period Governor of the Bank of England.

men proficient as accountants, and of experienced Banking ability generally,—to be elected by a committee of Banks of kindred business and districts, and whose election shall be subject to the approval of the Board of Trade.

(a) Banks being required to publish monthly statement of accounts, it shall be the business of each such audit inspector constantly to visit the Banks in his district and acquaint himself with the details and particulars of their business and working, and the said officer shall under his hand forward to the Board of Trade, quarterly, a return from each such Bank in conformity with the above plan, as a certificate that the provisions for accounts are from time to time faithfully carried out.\*

(b) In the appointment of the audit inspector the approbation of the Board of Trade being required would be an effective check on the election of any person interested, however indirectly, in a partial investigation or report of any particular Bank, whilst it would be impossible for a committee of Banks to combine to elect any person whom they could all influence. At the same time it must be seen to be such Banks' best policy to appoint a thoroughly able banking man to supervise them.

2nd. Combining therewith a committee of the Bank's shareholders, to be chosen at general meet-

\* A consideration of what is involved in the form for statement of accounts above given will show these duties to be very weighty, and requiring the exercise of considerable ability and constant vigilance.

ing, not being on the direction, not fewer than three, nor more than seven in number; of certain qualification as to amount of share capital held, and obligated under secrecy, &c., with power to call in the assistance of the directors and officers in any matters requiring explanation, and to examine all books and documents belonging to the said Bank. "But no person shall be eligible as an auditor who is interested otherwise than as a member in any transaction of the Company."—*Vide* Companies' Act, 1862. "*Audit*" 86.

(c) It will be seen from a reflection on these *conditions*, and particularly with reference to the last, that it will be necessary for each Bank to publish a list of members *eligible* as (committee) *auditors*—such list to be checked and counter-signed by the audit inspector. This publication might be conveniently made by posting such list in the Bank at least one month before every general meeting, and by supplying members, *on application*, with a copy of the same.

(d) The function of the committee of shareholders shall be mainly to consider and report *HALF-YEARLY* on the assets and securities generally, and who shall state clearly whether in their opinion the report put forth by the directors to the shareholders at the end of each half-year is a full and fair statement of the Bank's position at that time, and if not so, they shall otherwise report specially thereon. But the certificate of audit, when given, shall be jointly that of the audit

inspector and the said committee of shareholders. And the said audit inspector, by virtue of his qualification for such office, and for whose efficiency the Banks are themselves responsible, shall have power to withhold his certificate should the report of the committee of shareholders be such as to convince him that they have not fully or impartially discharged the duties committed to them, and any loss which such Bank may sustain, in consequence of this, shall not be recoverable from such audit inspector so refusing, and any case of appeal shall rest with the Board of Trade, by whom the audit inspector, in default, shall be subject to instant dismissal.

(e.) These means may, or may not, be supplemented by the assistance of a public accountant, who shall certify generally as to the correctness of the accounts conjointly hereon with the said audit inspector.

15. That these several provisions and powers shall be OBLIGATORY and not PERMISSIVE; inasmuch as experience has proved that to give a power for a satisfactory audit, and not to enforce its *exercise*, is virtually to leave matters unprotected, and experience further proves that, so long as a Bank continues to pay satisfactory dividends, *shareholders* will not insist on any audit at all.

16. That it might, however, be expedient not to enforce the exercise of all these several powers *immediately* on the passing of any such Act, it being *optional*, in all respects, until such Act had been in

existence one year. Excepting that, in the meantime, in so far as relates to accounts, it shall be *compulsory* on all Joint Stock Banks alike to prepare such monthly statement, and forward the same, monthly, to the Board of Trade, in all respects as if intended for immediate *publication*. And on the part of Banks not adopting the provisions herein supposed to be made and provided, within the period of one year as above, the Board of Trade shall register the said accounts for public reference only in the event of any such Bank becoming *insolvent*, or winding up its affairs within the said period of one year, but not for *public* reference within such period, otherwise than in the event herein named.

17. That failing the appointment of such audit inspector at first, or from time to time, by a committee of the Banks as suggested, or otherwise as might be determined on, the Board of Trade shall elect such competent person as it may deem capable of discharging efficiently the duties herein supposed.

18. That the several Banks included in any given district shall pay, *pro rata* and in such manner as may be determined on the passing of any such Act, the said audit inspector, by whomsoever appointed, at a charge in no case exceeding in the whole £..... per annum.

19. That the audit committee (of shareholders) shall, in any and every case, be paid by each such individual Bank, the amount being fixed on their appointment as aforesaid, but,

20. That failing the appointment at any general meeting (or subsequently) of such committee, the Board of Trade shall appoint such other independent commercial authority as it may deem competent to report on the position of any such Bank, whose remuneration shall, in this event, be fixed by the said Board of Trade.

21. That until the spirit and intention of all these several provisions shall have been complied with to the satisfaction of the Board of Trade, it shall not be competent for any Bank, not so complying, to publish any report whatsoever of its affairs, or pay dividends on account of capital, or money on account thereof, under penalty of \* \* \* \* \*

22. That these provisions for audit cannot be held to be *impracticable*, since it may be demonstrated that in the case of the Leeds Banking Company there were many proprietors eligible as such auditors under all the conditions above-named. And taking this Company (a class of Bank least likely to afford such elements, because of the great number of borrowers a commercial Bank has) as an index, it is fair to assert every Bank could supply the power suggested.

23. That it is erroneous in theory and fatal in practice that any part of the business of a Joint Stock Bank should of necessity be hidden from any member of the board; equally so is it to think that the supervision of a committee of shareholders would be prejudicial to the *permanent* interests of any given

Bank. Common sense dictates that such auditors being interested in a pecuniary point of view, equally it may be with the direction, would not be likely to discharge their duties otherwise than with discretion and, at least, in *favours* of the Bank rather than against it. Whilst any undue or material leaning on their part towards hiding the true position of their Bank would probably be sufficiently checked by the "audit inspector" herein supposed. But, I would also here anticipate what may on a *superficial* consideration of the function of such audit inspector be set forth as a great objection. I mean the fact of its being his duty to go from Bank to Bank, and the *possibility* of his permitting matters connected with any individual company to be incautiously drawn from him. And, that further, it may be objected that the information and power which such person would necessarily obtain might be abused to the injury of any given Bank. But, in anticipating such objections, permit me again to direct your attention to the *nature* of the particulars embraced in the above form for statement of *accounts*, and, supposing that form to be complied with, I believe that any information to be obtained *beyond* these matters might be safely entrusted to such officer without fear as to his inadvertence or misuse of his information.

It is clear, however, that such an officer must become acquainted with *individual* accounts in the several Banks under his inspection, and, cursorily, it



seems undesirable that this should be so. Let this system, however, once take root—let these provisions for rendering the *general* accounts be faithfully carried out, and *individual* accounts overdrawn without security will soon be brought within such compass as to make it comparatively of small matter that a knowledge of such individual accounts is necessarily acquired by this officer.

I am convinced that any audit power composed of *shareholders* only would be totally inadequate to a thorough audit of the great majority of Banks, so that it should be reliable from time to time. I am also convinced that you cannot, under any cursory or *variable* machinery of inspection, have these provisions for accounts faithfully carried out, and on the fidelity with which this is done much depends. If, therefore, an audit is to be *thorough* (and it is of little use to aim at anything short of this) the necessary supervising power to this end must rest *somewhere*. I believe that in entrusting this information to the class of gentlemen whom I have indicated—whose position from *youth* up has alike depended on their *discretion* and ability—it would never be abused. I believe that this system of Bank audit fairly carried out would considerably diminish the *risks* of banking, and would also considerably increase even the present great *PROFIT* of banking.

24. That notwithstanding the *magnitude* of the difficulties encompassing any scheme of thorough audit—notwithstanding any danger to *existing in-*

*terests*, the *CALAMITIES* which have been entailed from time to time on the nation at large from the want of adequate supervision and control over Joint Stock Banks, fully justify an experiment being made *at least* to amend this condition of things.

It only now remains for me to remark that one somewhat considerable difficulty involved in this question has not been noticed, *viz.*, the audit of Banks having influential commercial branches far distant possibly from Head Office.

You will not, however, infer that this is deemed too formidable a difficulty to be brought within the compass of the above scheme, but, rather, that having already dwelt on the subject generally at great length, I leave the consideration of this point until time and circumstances shall further require it to be gone into.

In conclusion, I would record my conviction that it is *PRACTICABLE* to establish a thorough, independent system of Bank audit. I, therefore, leave the subject for the consideration of the public generally, for Joint Stock Bank proprietary in *particular*; and, I trust, at an early date, for that of the Legislature.

The present time seems to me most opportune for instituting a thorough investigation of this important question, and if I have so dealt with the subject as to impress its practicability on yourself, I trust sincerely that yours may be the honour of bringing it about. The difficulties involved in the question are very great, the opposition to such a scheme would

probably be very strong, but I am convinced that your earnest mind, capable of surmounting all this, and your zeal in the discharge of your duties as a legislator, will stimulate you to the achievement of whatever is possible in *mitigation* of the evils which I have so imperfectly brought before you.

I am, Sir,

Your faithful servant,

HENRY FISHER.

14th November, 1864.

END OF  
TITLE